"Strengthening our Economy: Foreclosure Preventions and Neighborhood Preservation"
Senator Jack Reed, RI
January 31, 2008

Thank you, Chairman Dodd and Senator Shelby, for convening this hearing.

The housing crisis is a growing threat to every community in America. In my home state of Rhode Island, we are seeing a record number of foreclosures and mortgage delinquencies. The contraction of the housing market is impacting our entire economy and the global economy.

As we all know, this is a complicated and multi-faceted problem, and is going to require a multi-pronged approach. I am pleased that Chairman Bair is here with us today, because she has demonstrated great foresight with respect to remedies in the subprime market as well as other financial issues like the Basel Accords. In addition, I look forward to hearing from Undersecretary Steel and the other panelists about what they believe is currently happening both in the markets and in our neighborhoods today, and how existing initiatives are working.

In December, months after the subprime crisis first hit with full force, President Bush finally announced a proposal to deal with the rising tide of foreclosures. The central focus of his agenda is a voluntary public-private partnership program, called the HOPE NOW Alliance. However, there are many indications that the President's program is providing assistance to only a small fraction of people facing foreclosure and I remain concerned that it will not be sufficient to deal with the massive scale of the housing crisis we face. In part due to these ongoing concerns, I have introduced a number of bills, in particular the HOPE Act and the GSE Mission Improvement Act, which I believe could help in this context.

We always aim to strike the proper balance among voluntary, regulatory and legislative actions. For their part, regulators have repeatedly assured the Committee that they have been working with market participants and were on top of this developing crisis. But frankly, if we do not have evidence that their efforts are achieving acceptable results, then we must consider additional legislative solutions to such an urgent situation. The current numbers of modifications are unacceptable and it is clear that the industry needs to significantly step up its efforts both in terms of real modifications but also in terms of meaningful reporting.

Today, we again seek clear answers to basic questions, and practical and timely ideas about how to deal with the deflation of the housing bubble so that liquidity can return to the real estate sector, and, at the same time we can restore confidence in American capital markets moving forward.

To be sure, it is possible that the latest rate cuts by the Federal Reserve could eventually rejuvenate the mortgage market if refinancing opportunities become more widely available. However, we must not forget to identify and heed the lessons of this chapter in our economic history. If the markets bounce back before we correct the regulatory gaps and systemic weaknesses that caused this situation, then any perceived recovery would be an illusion. The way we deal with these problems will have profound domestic and global implications.

Again, I thank the Chairman and look forward to hearing from the witnesses.